



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 2, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Ruidoso
Charter Number 21109**

**451 Sudderth Drive
Ruidoso, New Mexico 88345**

**Comptroller of the Currency
1600 Lincoln Plaza
500 North Akard
Dallas, Texas 75201-3394**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank of Ruidoso** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 2, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory**”

First National Bank of Ruidoso has a reasonable loan-to-deposit ratio, particularly considering the large number of financial institutions in this small community. The vast majority of the bank's loans are made inside the assessment area. Distribution of loans, both by the borrowers' income and business size, is very good. Geographic distribution of loans covers substantially all of the bank's assessment area, and does not exclude low- and moderate-income areas.

The following table indicates the performance level of **First National Bank of Ruidoso** with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | First National Bank of Ruidoso Performance Levels | | |
|--|---|---|---|
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does Not Meet Standards for Satisfactory Performance |
| Loan-to-Deposit Ratio | | ✓ | |
| Lending in Assessment Area | ✓ | | |
| Lending to Borrowers of Different Incomes and to Businesses of Different Sizes | ✓ | | |
| Geographic Distribution of Loans | | ✓ | |
| Response to Complaints | No complaints relating to CRA activities were received since the prior examination. | | |

DESCRIPTION OF INSTITUTION:

First National Bank of Ruidoso was chartered on December 17, 1985. The bank is a full service retail bank with \$40 million in total assets and \$15 million in net loans as of December 31, 1996. Its primary operation is at its main office located in the eastern part of Ruidoso. In addition to the main office, the bank has one branch located at the western end of town. Since the last examination, the bank has a new automated teller machine (ATM) which is operated outside the main office. The bank is the second largest in town.

The bank is a subsidiary of a two bank holding company, First Alamogordo Bancorp, Inc. which owns the majority of the bank's stock. The affiliate bank is First National Bank in Alamogordo, located in Alamogordo, New Mexico. The First National Bank of Ruidoso offers a wide range of deposit and lending products to consumer and business customers. As of April 2, 1997, the bank had over \$16 million loaned primarily to local businesses and individuals. All the bank's commercial loans are to small businesses. In addition to direct lending, the bank offers a home loan product through the Independent Banker's Association of America which is funded by PHH Mortgage Company.

DESCRIPTION OF ASSESSMENT AREA:

First National Bank of Ruidoso has designated all of Lincoln County and the Mescalero Apache Reservation in Otero County as its assessment area. Lincoln County has a population of 12 thousand per the 1990 census data. Approximately 60% of the population in Lincoln County, or 7.3 thousand, reside in Ruidoso and Ruidoso Downs. Some other populated areas include, Carrizozo, Capitan, Corona, and Hondo. These other populated areas are all "down the mountain" and at least 15 to 20 miles away. Mescalero, in Otero County, is "on the other side of the summit" and approximately 15 miles away. Due to these geographies, First National Bank of Ruidoso considers Ruidoso and Ruidoso Downs as its primary assessment area, and the remainder of Lincoln County and the adjacent Mescalero Apache Reservation as its secondary assessment area.

Lincoln County is comprised of nine block numbering areas (BNA). Of these, one BNA is designated as moderate income, six are middle income, and two upper income. There are no low income BNA in the county. The Mescalero Apache Reservation in Otero County is designated as moderate income. These income areas are based on the statewide nonmetropolitan median family income (from the 1990 census) within each individual BNA. If the BNA is less than 50% of the statewide nonmetropolitan median family income, it is categorized as low income; moderate is between 50% and 79%; the middle income range is 80% to 119% and the upper range is income of 120% and above the median family income. The New Mexico statewide nonmetropolitan median family income is \$23,166.

Ruidoso has a competitive financial environment for a small village. Competing for deposits and loan customers are two community banks, a branch of a major nationwide bank, a new branch of a Las Cruces based bank, and numerous savings banks and mortgage companies.

According to the Chamber of Commerce, Ruidoso Municipal Schools is the largest employer in the region, followed by Wal-Mart, the Lincoln County Medical Center, the Village of Ruidoso, and Furr's

Supermarkets. The unemployment rate was 6.4% in 1995. With horse racing at Ruidoso Downs, snow skiing in the winter, and gambling facilities on the nearby Mescalero Indian Reservation, the local economy is based primarily upon tourism and related service industries. There is also a growing retirement community.

Community members contacted identified affordable housing and water supply as the two most pressing problems in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Ratio

The bank's loan to deposit ratio is reasonable. On December 31, 1996 it was 42.89%. The ratio of 701 similarly sized banks nationwide was 66.39%. Over the last seven quarters, the evaluation period for this rating, this bank's ratio has been declining from an average 49.03%. This bank compares favorably to the largest bank in town, which had a loan to deposit ratio of 44% at December 31, 1996. Both of these banks are considerably lower than some other local banks, which had loan to deposit ratios as high as 194%. However, the other financial institutions are not necessarily comparable. Some are savings and loans whose primary market niche is mortgage lending. One other is a new bank which is lending aggressively to gain market share in their new location.

Lending in the Assessment Area

First National Bank of Ruidoso has done a very good job of lending within its assessment area. The bank tracks outstanding loans in the Ruidoso, Alto, and Ruidoso Downs portions of their Lincoln County assessment area, and in Mescalero in the Otero County portion of their assessment area. The bank's analysis lumped loans in all other areas together. During the examination, the bank provided information which allowed us to evaluate where the rest of their loans were.

As of their annual self-assessment at June 30, 1996, approximately \$2.6 million of the \$3.8 million "other" loans appeared to be out of area. However, we were able to determine that these \$2.6 million in loans are to borrowers who may live elsewhere, but have second homes or businesses in Ruidoso. This is a typical pattern of lending in a resort area. Because these loans were made for consumer or business activities in Ruidoso, they are considered inside the assessment area even though the borrowers may have a principal address elsewhere.

Another \$683 thousand in loans included in the bank's "other" category were actually loans in the Lincoln County assessment area. These loans were in smaller communities such as Capitan, Carrizozo, Glencoe, San Patricio, Nogal, and Lincoln.

Lending in the Assessment Area (Continued)

In our final evaluation, we determined that of the \$3.8 million “other” loans not in Ruidoso, Alto, Ruidoso Downs or Mescalero, all but a little over \$300 thousand were actually in the bank’s assessment area. The bulk of the loans outside the bank’s assessment area consist of loan participations purchased from the bank’s affiliate in Alamogordo, New Mexico.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank’s distribution of loans to individuals of different income levels reflects a very good penetration. Additionally, the distribution of commercial loans based on gross revenues reflects a solid penetration in small business establishments.

The bank’s analysis of loans by applicant income is shown in the following table. Of the total Lincoln County population 21% are low income families and 18% are moderate income families. Based on the number of loans made, the bank’s loan percentages in these categories exceed the area demographics. Only 28% of the bank’s loans by dollar amount go to loans to individuals in low- and moderate-income families compared to 39% of families with low- and moderate-income. This is reasonable because borrowers with less disposable income generally borrow in smaller dollar amounts.

DISTRIBUTION OF LOANS BY BORROWER INCOME (as of April 2, 1997)

| Income Level: | Number Made | \$000 Made | Percent of loans made in the period | |
|---------------|-------------|------------|-------------------------------------|-----------|
| | | | By Number | By Dollar |
| Low | 54 | 325 | 25 | 14 |
| Moderate | 49 | 323 | 22 | 14 |
| Middle | 43 | 523 | 19 | 22 |
| Upper | 74 | 1,162 | 34 | 50 |

The bank’s analysis of loans to small businesses reflects that *all* of their commercial loans are to “small businesses”, which are defined as those with gross revenues of \$1 million or less. This is reflective of the community, which is largely comprised of small retail and service businesses. Included in the bank’s numbers are 20 loans guaranteed by the Small Business Administration, with original balances of nearly \$4 million and balances as of December 31, 1996 of over \$3 million. (See table on the following page for details.)

DISTRIBUTION OF LOANS BY GROSS REVENUES (as of April 2, 1997)

| Gross Sales (\$000s) | Number Made | \$000 Made | Percent of loans made in the period | |
|----------------------|-------------|------------|-------------------------------------|-----------|
| | | | By Number | By Dollar |
| <= \$100 | 6 | 278 | 17 | 2 |
| \$100-500 | 24 | 6,557 | 69 | 47 |
| >= \$500 | 5 | 7,072 | 14 | 51 |

Geographic Distribution of Loans

An analysis was done to determine how the bank's loans are distributed among BNA of different income levels. As discussed in the **Description of Assessment Area** section of this report, there are nine block numbering areas (BNA) in Lincoln County. Of these, one BNA is designated as moderate income, six are middle income, and two upper income. There are no low income BNA in the county. The only moderate income BNA is in Hondo, which is in the bank's secondary assessment area. The Mescalero Apache Reservation in adjacent Otero County is also designated as moderate income. First National Bank of Ruidoso's distribution of loans within its geographic area is satisfactory. No areas have been excluded.

Despite the presence of low-income families in the area, there are *no* low income *tracts* in Lincoln County. The two moderate income tracts in the bank's Assessment Area are in Hondo, and Mescalero. While it is true that these communities are in the bank's secondary assessment area, less than 1% of the bank's loans are made in these two communities. Hondo has 7% of the total county population, and is located "down the mountain" towards Roswell, New Mexico. Mescalero, which is in Otero County, has a population of 2.7 thousand, or roughly one third the size of Ruidoso and Ruidoso Downs combined. As noted previously, Mescalero is "over the summit" on the road to Alamogordo. According to the bank, because of the community locations and terrain between them and Ruidoso, people in both of these communities tend to bank in Roswell and Alamogordo, respectively rather than coming up the mountain or over the summit to bank here. The percentage of loans made in high income tracts has been comparable to the percentage of the total population living in those tracts. The difference is being shifted to middle income BNAs. Geographic distribution within Ruidoso and Ruidoso Downs shows penetration into all areas.

Response to Complaints

During the evaluation period, First National Bank of Ruidoso received no comments from the public regarding their CRA performance. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations.